

**PUBLIC DISCLOSURE**

March 7, 2005

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**MONSON SAVINGS BANK**

146 MAIN STREET  
MONSON , MA 01057

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **MONSON SAVINGS BANK (or the "Bank")** prepared by the Division, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

Monson Savings Bank's CRA rating is based on five lending performance criteria, which are evaluated within the Bank's performance context. The Bank's satisfactory rating is based on: (1) an average net loan to deposit ratio of 85.0 percent; (2) a reasonable majority of mortgage and small business loans granted within its assessment area; (3) a more than reasonable lending distribution among borrowers of different income levels and a good distribution of small business loans based on loan size; (4) a good distribution of mortgage and small business loans granted among the census tracts, comprising the assessment area and finally, (5) regular implementation of fair lending policies and procedures. No discriminatory lending practices were noted. No CRA complaints were received by the Bank.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Monson Savings Bank is a mutually-owned state chartered savings bank, incorporated in 1872. The Bank maintains its main office and loan center on the main street in Monson, Massachusetts. In addition, the Bank operates two full-service branch offices situated at Somers Road, Hampden and Post Office Park, Wilbraham.

All offices offer drive-up teller facilities and 24-hour ATM service with network access via NYCE, CIRRUS. Monson Savings Bank is a SUM network member. SUM member banks do not levy ATM surcharges on their own customers or to other members' customers.

Monson Savings Bank, as of December 31, 2004 had total assets of \$ 167.5 million; total loans represented \$ 116.6 million or 69.6 percent of assets. The table below details the Bank's loan portfolio.

<b>Loan Portfolio as of December 31, 2004</b>		
Type of Loans	\$'s (000's)	% of Total Loans
Construction & Land Development	12,091	10.4%
Residential Real Estate		
a. 1-4 Family Mortgages	45,887	39.3%
b. Home Equity Lines/Loans	15,342	13.2%
Multifamily	5,427	4.7%
Commercial Loans		
a. Commercial Real Estate.	22,675	19.4%
b. Commercial Loans	12,931	11.1%
Consumer Loans		
a. Credit Cards		0.0%
b. Loans to Individuals	2,273	1.9%
Other Loans		
Total	116,626	100.0%

Source: FDIC Call Report of Condition, 12/31/04

Monson Savings Bank's lending remains centered in residential loans with first mortgages and equity loans (combined) comprising a majority (52.5%) of total loans. However, lending diversification is evident with commercial real estate and commercial loans representing the second largest segment (30.5%) of the Bank's loans. Lastly, construction and multifamily loans (5 units or more) combined, represented 15.1 percent of total loans, while consumer loans represented 1.9 percent of all loans.

As primarily a mortgage lender with diversification in commercial lending, Monson Savings Bank is an approved secondary market seller/servicer with the Federal National Mortgage Association ("FNMA", "FannieMae"). Monson Savings Bank is also a member of the Federal Home Loan Bank of Boston ("FHLBB"). The Bank became a Small Business Administration ("SBA") approved lender

## **PERFORMANCE CONTEXT (CONTINUED)**

in June 1999. The institution's ability to meet community credit needs remains adequate, based on its financial condition, size and product offerings.

The Federal Deposit Insurance Corporation ("FDIC") evaluated Monson Savings Bank for CRA performance as of November 25, 2002 and assigned the Bank an overall "Satisfactory" rating. The Division last conducted a CRA evaluation as of January 29, 1999. This evaluation resulted in a "Satisfactory" rating.

### **Description of Assessment Area**

CRA requires financial institutions to define an assessment area within which the bank's lending activity will be evaluated. Generally, assessment area(s) consist of Metropolitan Statistical Areas ("MSA"s) or contiguous political subdivisions, such as counties, cities and towns. Monson Savings Bank's assessment area is in conformance with the CRA regulation, containing only whole geographies or census tracts.

Monson Savings Bank's defined assessment area includes the towns of Monson, Palmer, Hampden, Wilbraham, Brimfield, Holland and Wales, and Belchertown. In 2003, all these municipalities, except Brimfield, Holland and Wales, were situated within the Springfield, MA MSA. The census tract containing Brimfield, Holland and Wales was situated within the Worcester, MA-CT MSA. The Springfield, MA MSA's 2003 area median income was \$56,800, while the Worcester, MA MSA area median income was \$68,000.

In 2004, the federal government's Office of Management and Budget (OMB) reconfigured the MSAs nationwide, determining all MSA's would be based on county boundaries. The Springfield, MA MSA now includes all municipalities situated within Hampden, Hampshire and Franklin counties. All of the towns within the Bank's assessment area, except Belchertown, are situated within Hampden County, Massachusetts. Belchertown is located in Hampshire County. The Springfield, MA MSA's 2004 area median income is \$61,200.

The CRA regulation defines income levels as low-income (less than 50 percent of the area median income), moderate-income (50 to 79 percent of median family income (MFI)/area median income), middle-income (80 to 119 percent of area median income/MFI), and upper-income (120 percent and greater of the area median income/MFI). Both census tract and borrower income levels are based on these categories; however, census tract incomes are based solely on the ten-year census data, while borrower incomes are updated each year by Department of Housing and Urban Development ("HUD").

All of the demographic information used in this evaluation is based on the 2000 U.S. Census. The assessment area towns comprise ten census tracts, six of the tracts are middle income and four are upper income tracts. The six middle income tracts are situated in Monson (1 tract), Palmer (3 middle tracts), Brimfield, Holland and Wales (1 middle income tract) and Belchertown (1 middle tract). The four upper income tracts are located in Hampden (1 tract), Wilbraham (2 upper income geographies) and Belchertown (1 upper tract).

## PERFORMANCE CONTEXT (CONTINUED)

The table illustrates the distribution of households (all households, not just family households) and housing units among the census tracts within the assessment area.

Housing Characteristics by Census Tract Categories							
Geographic Income Category	Distribution by Percentage						Median Home Value
	Census Tracts	Households	Housing Units	Owner-Occupied	Renter-Occupied Units	Vacant Units	
<b>Middle</b>	60.0	61.9	63.4	58.2	77.8	84.5	\$126,208
<b>Upper</b>	40.0	38.1	36.6	41.8	22.2	15.5	\$164,357
<b>Total/Median</b>	100.0	100.0	100.0	<b>75.7</b>	<b>18.1</b>	<b>6.2</b>	<b>\$140,180</b>

Source: 2000 U.S. Census Data

In general, the distribution of households, housing units and owner occupied dwellings parallel the distribution of census tracts (by income categories). However, renter occupied units are more concentrated in the middle income tracts, as are vacant housing units. Notably, median home values vary in the middle tracts versus the upper income tracts.

The following table shows the distribution of family households (by income levels) within each census tract category and for the assessment area, as a whole.

Percentage of Families Within Each Census Tract Category					
Tracts Income Category	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total %
<b>Middle</b>	14.9	18.4	26.1	40.6	100.0
<b>Upper</b>	8.3	11.5	17.4	62.8	100.0
<b>Total/All Tracts</b>	12.2	15.6	22.5	49.7	100.0

Source: 2000 U.S. Census Data.

Low and moderate income families within the middle income tracts represent 33.3 percent of all families within these tracts, while low and moderate income families within the upper income families represent 19.8 percent of all families. Similarly, middle income families are 26.1 percent of all families within the middle income tracts and 17.4 percent of families within the upper income geographies. Lastly, upper income families within the middle income geographies stood at 40.6 percent of all families residing within these tracts, while upper income families within the upper income tracts stood at 62.8 percent of all families residing within these tracts.

The following table provides median home prices for the towns within the Bank's assessment area. Warren Information Service compiles the current home sales based on Registry of Deeds transactions.

	December 2003*	December 2004*
Monson	\$149,900	\$166,250
Palmer	\$130,000	\$158,000
Hampden	\$189,950	\$215,000
Wilbraham	\$216,500	\$251,000
Belchertown	\$179,900	\$200,875

Source: Warren Information Services (Banker & Tradesman)

## **PERFORMANCE CONTEXT (CONTINUED)**

Of the communities shown, Palmer and Wilbraham are the most active real estate markets (in 2003 and 2004) with the home sales ranging between 250 and 300 sales annually. Monson is the second most active market with home sales in 2003 and 2004 standing at approximately 200 annually.

### **Aggregate Lenders' Data**

The Home Mortgage Disclosure Act ("HMDA") requires lenders to report all purchase mortgages, refinances and home improvement loans to their respective regulators. Based on HMDA loan activity in 2003, there were 257 reporting lenders active within the assessment area. These mortgage lenders ranged from large nationally based mortgage companies and regional banks to small proprietary mortgage lenders. In aggregate, these HMDA reporting lenders originated a total of 6,988 loans for \$983.6 million in loans. Based on HMDA reported originations, the top five mortgage lenders and their market share are as follows: (1) Country Bank for Savings (8.8%); (2) Fleet National Bank (8.1%), (3) Monson Savings Bank (6.6%); (4) Charter One Bank (6.0%); (5) Countrywide Home Loans (5.8% market share). These five lenders, combined, held 35.3 percent market share of all mortgage loan applications reported under the HMDA requirements. Additionally, the top twenty-five HMDA reporting lenders held a total of 68.0 percent of all loans granted in 2003.

### **Scope of the Evaluation**

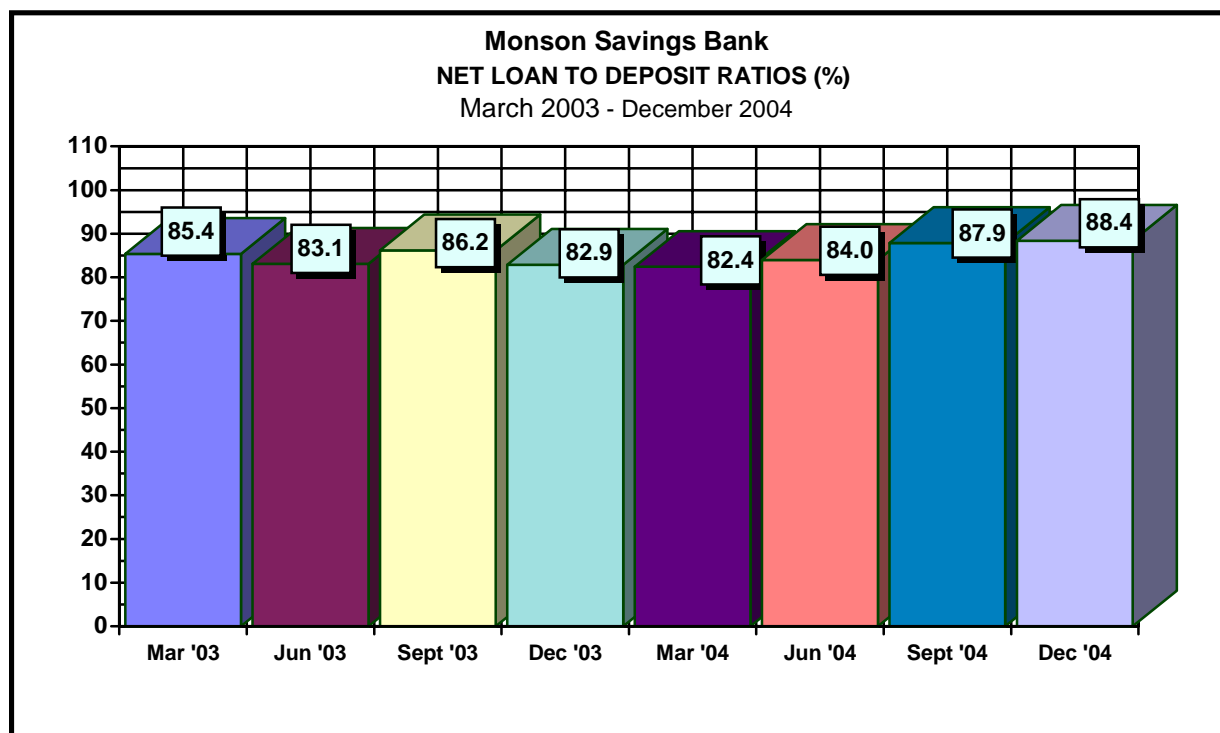
The credit products reviewed include all of the institution's HMDA reported residential mortgage loans and its small business loan originations for 2003 and 2004. The small business loan data was taken from the Bank's own internal reports. The CRA regulation defines a small business loan as "a loan with an original amount of \$1 million or less that are secured by nonfarm nonresidential properties or; commercial and industrial loans to U.S. addressees." A small business firm is further defined as having gross annual revenues are \$1 million or less.

## PERFORMANCE CRITERIA

### 1. LOAN TO DEPOSIT ANALYSIS

This criterion evaluates the level and trend of the Bank's net loan-to-deposit ratio. The average net loan-to-deposit ratio is 85.0 percent for the eight quarters from March 31, 2003, through December 31, 2004. Monson Savings Bank's performance is considered to exceed satisfactory performance levels.

The graph illustrates the ratio's level and trend for the quarters reviewed.



In 2003, the Bank experienced deposit growth of 9.7 percent and a loan growth of 5.3 percent, explaining, in part, the slight decline in the ratio of net loans to deposits ("NLTD") through December 2003. However in 2004, the Bank's NLTD demonstrated an increasing trend due to a positive loan growth of 4.9 percent, paired with a negative deposit growth of 1.4 percent.

Based on the Division's CRA small institution's performance standards, this criterion includes, "as appropriate, other lending related activities, such as loan originations for sale to the secondary market, community development loans or qualified investments." Monson Saving Bank is an approved seller/servicer with FNMA/FannieMae. The Bank sold 939 loans totaling \$108.2 million during 2003 and 2004; Monson Savings Bank continues to service all loans sold to FNMA. As a secondary FNMA approved lender, the Bank is able to offer a greater variety of fixed rate mortgage loan products at competitive interest rates. Refer to Fair Lending Policies and Practices for further description of the Bank's mortgage product offerings.

In conclusion, the institution's average net loan to deposit ratio of 85.0 percent is more than reasonable and reflects well on the Bank's lending capacity and responsiveness to the credit needs of its assessment area. The volume of secondary market loan sales further enhances the Bank's ability to continue to meet its assessment area's credit needs. Overall, Monson Savings Bank's performance is considered to exceed the standards for a "satisfactory" performance.

## PERFORMANCE CRITERIA (CONTINUED)

### 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

This lending criterion analyzes the Bank's record of lending within its assessment area. Overall, Monson Savings Bank's lending activity within the assessment area meets the standards for a satisfactory performance, representing the majority of the Bank's lending activity. Analysis of the HMDA reported mortgage loans and small business loans determined the Bank's performance for this and the two subsequent lending criteria. The period under review includes the calendar years 2003 and 2004.

Monson Savings Bank granted a total of 1,141 mortgage loans totaling \$151.6 million during the period reviewed. Lending activity inside the assessment area represented 59.7 percent (by number) and 58.3 percent (by dollar) of the total mortgage loans granted.

The following table details the bank's lending inside and outside its assessment area.

Home Mortgage Loans Inside and Outside the Assessment Area								
	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
<b>2003</b>	459	59.8	56,689	59.1	308	40.2	39,253	40.9
<b>2004</b>	222	59.4	31,746	57.1	152	40.6	23,886	42.9
<b>Total</b>	681	59.7	88,435	58.3	460	40.3	63,139	41.7

Source: HMDA LAR, CRA Wiz

Having granted a majority of home mortgage loans inside the assessment area, the Bank's performance is considered to be reasonable and meet the standards for a "satisfactory" rating.

Monson Savings Bank granted 242 small business loans totaling \$33.5 million in 2003 and 2004 combined. Lending activity inside the assessment area represented 55.0 percent (by number) and 39.0 percent (by dollar volume) of the total of small business loans granted. (Conversely, small business lending activity outside the assessment area represented 45.0 percent (by numbers) and 61.0 percent (by dollars) of all these loans granted.) The following table provides further detail.

Small Business Loans Inside and Outside the Assessment Area								
	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
<b>2003</b>	72	55.4	7,102	42.4	58	44.6	9,648	57.6
<b>2004</b>	61	54.5	5,959	35.6	51	45.5	10,791	64.4
<b>Total</b>	133	55.0	13,061	39.0	109	45.0	20,439	61.0

Source: Bank's Internal Report.

As shown above, the majority (55.0%) of small business loans (by number) were granted inside the assessment area however, the majority (61.0%) of small business loans (by dollar volume) were granted outside the Bank's assessment area. The average loan size for those loans inside the assessment area was \$98 thousand, while the average loan size for those loans outside the assessment area was \$187.5 thousand. The difference in average loan size inside and outside the assessment area explains, in part, the above lending pattern.



## PERFORMANCE CRITERIA (CONTINUED)

Furthermore, the assessment area's business demographic data indicates that an overwhelming majority of business entities are small in scale. The following statistics indicate the area's small business profile: 65.3 percent of reporting business had 1-4 employees, 65.0 percent had annual revenues below \$0.5 million, and 89.1 percent operate out of a single location.

In conclusion, Monson Savings Bank's lending activities inside its assessment area are considered to be adequate and to meet the standards for a "satisfactory" performance.

### 3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

This lending criterion evaluates the extent to which the institution lends to borrowers of different income levels and businesses of different sizes within its assessment area. The Bank's performance for this criterion was found to be more than reasonable and to exceed the standards for a satisfactory performance. The Bank's residential lending is given the greater weight due to the greater volume of these loans granted and held in the Bank's loan portfolio.

The Springfield MA MSA's area median income/MFI was \$56,800 and \$61,200 in 2003 and 2004, respectively. In the Springfield MSA in 2003, a low-income family (below 50% MSA median) earned \$28,000 or less, while a moderate-income family (50% to 79% area median) earned no more than \$44,800, annually. Middle income families (80% to 119% of MSA median) had incomes ranging from \$45,440 to \$67,600, while upper income family households earned \$68,000 or more, annually.

The following table compares the Bank's borrower income distribution to that of the HMDA aggregate lenders. In addition, the table compares these presentations to the distribution of the assessment area's family households by income categories.

Residential Mortgage Loans by Borrower Income								
Median Family Income Level	Family Households ( % of #)	2003 Aggregate Lending Data	2003		2004		Total	
		% of #'s	#	%	#	%	#	%
Low	12.2	3.4	21	4.6	19	8.6	40	5.9
Moderate	15.6	13.9	90	19.6	43	19.4	133	19.5
Middle	22.5	25.9	133	29.0	62	27.9	195	28.6
Upper	49.7	46.5	212	46.2	96	43.2	308	45.3
NA	0.0	10.3	3	0.6	2	0.9	5	0.7
<b>Total</b>	100.0	100.0	459	100.0	222	100.0	681	100.0

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

Comparison to both sets of data provides a measure of the reasonableness of the Bank's lending distribution. The aggregate lenders' data also indicates the level of lending opportunities, existing among borrowers of all income categories.

In 2003, the aggregate lenders' distribution reasonably reflects the demographic distribution of households of all income categories, excepting low-income borrowers. In 2003, Monson Savings Bank's borrower income distribution exceeded the HMDA aggregate performance for lending to both low and moderate-income borrowers. The Bank also exceeded the aggregate lenders' performance for lending to middle income borrowers. The Bank's 2004 loan distribution closely

## PERFORMANCE CRITERIA (CONTINUED)

mirrored the 2003 distribution; however, the percentage of loans granted to low-income borrower increase in 2004.

The Bank's 2003 lending distribution to both low-income and moderate-income borrowers (based on dollar volume) similarly exceeded the aggregate lenders' distribution to these income groups. Likewise, the Bank's dollar volume of loans to middle income borrowers exceeded that of the aggregate lenders'. In 2004, the Bank lending distribution by dollar volume mirrored that of 2003; however, the percentage of loans by dollar amount to low-income borrowers increased.

Overall, Monson Savings Bank's mortgage lending to low and moderate-income borrowers remained above the aggregate lenders' performance. Additionally, the institution's lending to middle income borrowers exceeded the level of these households within the assessment area, indicating a more than reasonable lending distribution to this income group. Consequently, the Bank's mortgage lending for this criterion exceeds the standards for a satisfactory rating.

The following table provides an analysis of the Bank's small business loans by the amount of the loan at origination. (The table includes both number and dollars of loans granted.)

Small Business Loan Originations by Loan Size												
	2003				2004				Total			
Loan size	#	%	\$(000)	%	#	%	\$(000)	%	#	%	\$(000)	%
<=\$100m	54	75.0	2,281	32.1	43	70.5	1,794	30.1	97	72.9	4,075	31.2
>\$100m- <=\$250m	13	18.1	2,159	30.4	12	19.7	2,047	34.4	25	18.8	4,206	32.2
>\$250m- <=\$1mm	5	6.9	2,662	37.5	6	9.8	2,118	35.5	11	8.3	4,780	36.6
Total	72	100	7,102	100	61	100	5,959	100	133	100	13,061	100

Source: Bank's Internal Commercial Loan Reports

During the evaluation period, the Bank originated 133 small business loans totaling \$13.1 million within its assessment area. Of these, 97 loans (or 72.9%) were for loan amounts of \$100 thousand or less, 25 loans (or 18.8%) were for amounts greater than \$100,000 (to \$250,000) and 11 loans (or 8.3%) were for amounts exceeding \$250 thousand (to \$1.0 million). As demonstrated, the overwhelming majority of the Bank's small business loans had original loan amounts equal to or less than \$100 thousand.

As shown, the same small business loans by dollar volume were evenly distributed among the three loan size categories. Of the total \$13.1 million in loans originated, \$4.1 million (or 31.2%) were for amounts of \$100 thousand or less; \$4.2 million (or 32.2%) were for amounts greater than \$100 thousand to \$250 thousand; and lastly, \$4.8 million (or 36.6%) were for amounts exceeding \$250M up to \$1.0 million. The above distribution by both number and dollar is considered to be good with the preponderance of loans granted situated in the two smaller loan categories (amounts equal or less than \$250 thousand).

Information on the gross revenues of entities to which the above analyzed loans were granted is not available. However, the Bank's management estimated that approximately 95.0 percent of the companies to which small business loan are granted have gross annual revenues of \$1.0 million or less. In addition, the above favorable distribution by loan size indirectly indicates that the majority of businesses borrowing are smaller in nature.

## PERFORMANCE CRITERIA (CONTINUED)

In summary, Monson Savings Bank's residential lending demonstrates a solid distribution of loans granted to low-income and moderate-income borrowers. The Bank's borrower income distribution compares favorably to the aggregate HMDA lenders' performance and to the assessment area's family household demographics. Additionally, the Bank's small business lending activity reflects a good lending distribution based on the size of loans granted. Monson Savings Bank exceeds the standards for a satisfactory performance for this lending criterion.

### 4. GEOGRAPHIC DISTRIBUTION OF LOANS

This performance criterion evaluates the institution's record of addressing the credit needs of the assessment area based on the geographic distribution of loans. Monson Savings Bank's performance for this criterion is considered to be good and to meet the standards for a satisfactory performance. Census tract income categories are defined as, the same income categories used to determine borrowers' incomes. However, the ten-year U.S. Census MSA median incomes are used to determine the tracts' income levels.

The Bank's assessment area contains only middle (6 tracts) and upper (4 tracts) income geographies. The six middle income tracts are situated in Monson (1 tract), Palmer (3 middle tracts), Brimfield, Holland and Wales (1 middle income tract) and Belchertown (1 middle tract). The four upper income tracts are located in Hampden (1 tract), Wilbraham (2 upper income geographies) and Belchertown (1 upper tract).

The table compares the Bank's geographic distribution of mortgage loans to that of the HMDA Aggregate Lenders' geographic loan distribution and to the distribution of owner occupied dwellings among the census tracts.

Distribution of HMDA Loans by Census Tract Income Category								
Census Tract Income Level	Owner- Occupied Housing Units (%)	2003 Aggregate Lenders' Data	2003		2004		Total	
		% of #	#	%	#	%	#	%
Middle	58.2	57.4	323	70.4	158	71.2	481	70.6
Upper	41.8	42.6	136	29.6	64	28.8	200	29.4
Total	100.0	100.0	459	100.0	222	100.0	681	100.0

Source: 1990 U.S. Census, HMDA LAR, HMDA Aggregate Data

As demonstrated, the majority of the Bank's mortgage loans were granted within the middle income census tracts. Notably, this distribution of loans was above the level of owner occupied dwelling situated within the middle tracts and also above the Aggregate Lenders' lending distribution.

The Bank's solid geographic distribution within the middle income tracts influences its borrower income distribution, since it is within these tracts that a more even income distribution of family households is evident. Of all families residing within the middle income tracts, 33.3 percent were of low and moderate incomes; 26.1 percent were of middle incomes; and 40.6 percent were upper income families. In comparison, of all the families residing within the upper income tracts, 19.8 percent were low and moderate-income; 17.4 percent were middle income; and 62.8 percent were upper income families.

## PERFORMANCE CRITERIA (CONTINUED)

Overall, the Bank's HMDA mortgage loan distribution is considered to meet the standards for a satisfactory performance.

The following table details the geographic distribution for the Bank's small business loans granted, during the evaluation period. (The analysis includes both number and dollars of loans granted.)

Small Business Loan Originations by Census Tract Income Level												
	2003				2004				Total			
Tract Level	#	%	\$(000)	%	#	%	\$(000)	%	#	%	\$(000)	%
Middle	50	69.4	4,554	64.1	41	67.2	3,686	61.9	91	68.4	8,240	63.1
Upper	22	30.6	2,548	35.9	20	32.8	2,273	38.1	42	31.6	4,821	36.9
Total	72	100	7,102	100	61	100	5,959	100	133	100	13,061	100

Source: Bank's Internal Commercial Loan Reports

Monson Savings Bank's small business lending activity is also centered within the middle income geographies. The Bank's strong market presence within the middle income tracts is attributable, in part, to the fact that its main office and loan center are situated in Monson, a middle income tract. Of the total 133 small business loans originated, 91 loans (or 68.4%) are situated within the middle income tracts and 42 loans (or 31.6%) are situated within the upper income geographies. Likewise, of the total \$13.1 million extended, \$8.2 million (or 63.1%) were within the middle tracts and \$4.8 million (or 36.9%) were within the upper income geographies.

In conclusion, the geographic distribution for both mortgage and small business loans are well centered within the middle income geographies. This geographic analysis indicates that Monson Savings Bank continues to have a good market presence within the middle income geographies and a reasonable presence within the upper income tracts. Overall, the Bank's performance for this lending criterion meets the standards for a satisfactory rating.

## 5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Monson Savings Bank received no complaints regarding its CRA performance for the period under review. The following discussion relates Monson Savings Bank's fair lending performance to the guidelines established by the Division of Banks Regulatory Bulletin 2.3-101. As the Bank regularly implements fair lending policies and practices, its performance is considered to be reasonable.

Monson Savings Bank offers an array of credit products to meet the credit needs of its assessment area. As a mortgage lender, the Bank offers both FannieMae secondary mortgage programs and its own in-house mortgage programs. The Bank's mortgage products include fixed and adjustable rate (1yr, 3yr and 5/1yr) mortgages with maximum term of 30 years and maximum loan to value (LTV) of 100%. Monson Savings Bank offers the FannieMae Flex97 and Flex100 mortgage programs, which allow for a minimum downpayment of 3% (Flex97) and a minimum of \$500 of the homebuyer's own funds in the case of the Flex100 mortgage program. (Note: a first time homebuyer can utilize gift or grant funds for downpayment and closing cost up to 3.0% of the property's value.) These programs have no borrower income caps or home buyer counseling requirements. In addition, the Flex97 and Flex100 programs can also be utilized for limited or no-cash out refinances. In 2004, the Bank granted 25 first time homebuyer loans for \$3.5 million of which 7 loans totaling \$1.1 million were Flex100 mortgage loans

## **PERFORMANCE CRITERIA (CONTINUED)**

Monson Savings Bank utilizes FannieMae's Desktop Underwriter ("DU"), which is a flexible underwriting software program. DU provides for the use of compensating factors when a borrower has higher debt to income ratios.

Monson Savings Bank offers a fixed rate, fixed term equity loan product with a 15-year maximum term and LTV of 80.0 percent. In addition, the institution offers a variable rate equity line of credit product with a maximum LTV of 90.0 percent. Consumer loan products include new and used car loans with maximum terms of 60 and 48 months, respectively; personal reserve credit accounts with limits from \$500 - \$3,000; and new and used boat/recreational vehicle loans. In addition, the Bank offers mobile home and home improvement loans.

The Bank's commercial loan offerings include commercial mortgages, term loans and demand loans. Monson Savings Bank is an approved Small Business Administration lender, offering SBA "Low Doc" and "7(a)" loans. The 7(a) program (SBA's primary loan program) offers working capital revolving lines of credit and short term loans to businesses meeting the SBA's size and credit requirements. The maximum loan amount under the Low Doc program is \$150,000. The 7(a) program has no maximum loan amount and a maximum SBA guaranty up to \$1,000,000. These loan programs make possible the credit extension by offering surety through the SBA guaranty. The Bank currently has 8 SBA loans outstanding totaling \$1.2 million.

Monson Savings Bank's loan policy calls for a second review of all mortgage and home equity credit application that are slated to be denied. Furthermore, the Bank annually analyzes its HMDA loan and application data as to borrower incomes, race and gender, and geographic location. This analysis is done to provide the Bank with feedback as to its lending patterns and its rate of non-originated applications. This annual report also provides a market share analysis and compares the Bank's data to that of HMDA aggregate lenders. The Bank also annually analyzes its commercial lending activity.

Fair lending training is provided to all newly hired employees and annually to all staff and management of the Bank. The Bank's compliance officer is responsible for the oversight of all employee training with regard to all fair lending laws and regulations.

## **MINORITY APPLICATION FLOW**

The Bank's minority loan application is compared to the aggregate HMDA lenders' data and to the assessment area's demographics to determine the reasonableness of the institution's level of attracting minority applicants. Based on the 2000 U.S. Census, the assessment area's population is 59,951 of which 2,289 persons or 3.8 percent are minority residents. The minority population consisted of Native Americans (0.2%), Asian/Pacific Islanders (0.7%), African Americans/Black (0.7%), Hispanics (1.3%) and other race minorities (0.9%).

Monson Savings Bank's minority applications in 2003 and 2004 combined represented 2.5 percent of its total applications. In 2003, the aggregate HMDA lenders received minority applications representing 5.0 percent of total applications. The following table compares Monson Savings Bank's minority application flow with that of the aggregate lenders.

## PERFORMANCE CRITERIA (CONTINUED)

MINORITY APPLICATION FLOW*								
RACE	AGGREGATE DATA 2003		BANK 2003		BANK 2004		BANK TOTAL	
	#	%	#	%	#	%	#	%
Native American	30	0.3	4	0.8	1	0.4	5	0.6
Asian	61	0.7	0	0.0	0	0.0	0	0.0
Black	90	0.9	1	0.2	0	0.0	1	0.1
Hispanic	91	0.9	0	0.0	7	2.6	7	0.9
Other/Joint Race	206	2.2	1	0.2	6*	2.2	7	0.9
<b>Total Minority</b>	<b>478</b>	<b>5.0</b>	<b>6</b>	<b>1.2</b>	<b>14</b>	<b>5.2</b>	<b>20</b>	<b>2.5</b>
White	6,925	75.3	506	97.5	252	92.6	758	95.8
NA	1,812	19.7	7	1.3	6	2.2	13	1.7
<b>Total</b>	<b>9,215</b>	<b>100.0</b>	<b>519</b>	<b>100.0</b>	<b>272</b>	<b>100.0</b>	<b>791</b>	<b>100.0</b>

Source: HMDA-LAR, CRA Wiz . \*Indicates Joint Race applicants (white/minority)

Monson Savings Bank's level of minority applications was below the aggregate lenders in 2003 and then rose to a level comparable to the aggregate lenders' in 2004. The differences in the two year's data is attributed to the fact that joint race applicants are included in the 2004 data and are not included in the 2003 data. For the two years combined, the Bank received 20 minority applications, representing 2.5 percent of all applications received. This level of minority applications compares reasonably to the level of minority residents (3.8% of all residents) within the Bank's assessment area. Of the 20 minority applications received, 18 were approved.

An institution's ability to attract minority applicants may be influenced by a number of factors including product offerings, competition and customer base and marketing presence within the minority communities. Overall, Monson Savings Bank's ability to attract minority applicant is considered to be adequate.

### **Conclusion/Fair Lending**

Monson Savings Bank's record of implementing and developing fair lending policies and practices is rated "satisfactory". This rating is based on regular training programs for all staff, credit products designed to meet the assessment area credit needs, efforts to review all denied mortgage and equity loan applications to ensure fairness in the underwriting and loan application process.

# PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (146 Main Street, Monson, MA 01047)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.